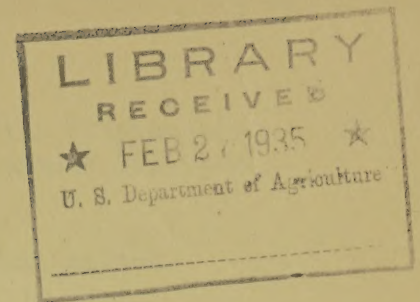


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THE NEED FOR AN INDUSTRIAL PRODUCTION PROGRAM AS  
A BASIS FOR SOUND PRICE AND EMPLOYMENT POLICIES.

by

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Agricultural Adjustment Administration

Prepared for the Hearings on Employment and  
Provisions of Codes of Fair Competition,  
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The Need for an Industrial Production Program as  
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In the statement we presented before the National Industrial Recovery Board at its recent hearings on Price Policies of the Codes, we attempted to call attention to the basic interrelationships between an agricultural and an industrial program that would make for higher standards of living of wage earners, farmers and other economic groups. Our central theme, which we wish to emphasize again to-day in connection with the employment provisions of codes, was that if the various economic groups of the country are to regain and exceed their pre-depression standards of living, the country as a whole would have to produce much more than it is now producing, and in that way wipe out unemployment and increase the exchange of goods and services between the farm and city populations and between the various groups of the urban population.

It seemed to us that only as we developed a clear cut direct production program, could we see in proper perspective the major policies that should govern the prices of raw materials, the wages and earnings of labor and the costs of other services in production and distribution. The practical difficulties of any one manufacturer or any one industry undertaking single-handed the obviously desirable program of producing more, of employing more, of adding more to the standard of living of the wage earner and the farmer, lead us to suggest the need for coordinating the policy of the various industries and agencies in making decisions with respect to volume, hours of employment, wages and prices that are now scattered through many codes and that should be developed from the point of view of the community as a whole.





Just as a concern over details of price policies alone without regard to volume and purchasing power of wage earners and consumers is a very indirect and ineffective means of industrial recovery, so a concern over details of wage and hour policies to the exclusion of the central objective of reemployment and increased output, will delay full recovery. This applies as well to policies of sharply reduced maximum hours which merely divides a small volume of work among a larger number without creating a greater volume of total production.

The avoidance of that delay is of vital importance to the agricultural adjustment program and to the maintenance of such stimulating effect as the improved farm situation has had on industry. Farm prices by the end of 1934 had returned to the prewar level but a substantial part of that rise was the result of the drought. A further advance has taken place during the past four weeks due to a sharp curtailment in livestock slaughter. In view of more normal crop prospects for 1935 and in view of the larger acreages under the adjustment contracts for 1935, these advances will be lost unless industrial activity and factory payrolls are increased vigorously to support the present level of agricultural prices. Furthermore, policies that tend to raise prices to the producer whether they are due to increased manufacturing costs brought about by too sharp a reduction in hours or to distribution costs, tend to widen the gap between farm and city prices, which from the standpoint of stability need actually to be brought closer together. If a lowering of the farm price and farm income level should take place during 1935, because additional industrial recovery is not present to prevent it, it would of





necessity weaken the position of those industries that have in 1933 and 1934 been able to produce and sell more for the farm market, and unemployment in those industries would tend to develop.

The kind of balance between agriculture and industry that we need to be aiming at is one first, where farmers not only supply the normal requirements for those who have been able to afford an adequate food budget but also a more adequate food consumption for those who have in prosperity and in depression lived on food budgets below adequate health standards; and secondly, where industry produces in abundance the things which make for a higher standard of living of both wage earners and farmers. The contribution of an agricultural program toward general recovery and stability is production for adequate consumption and such export demand as can be secured without jeopardizing the longtime standards of farm life. Inasmuch as the basic and controlling factor is the limited demand for food and clothing closely approximating the growth of our population, the agricultural program should not aim at sharply increased output except as opportunities are created for filling the void in areas of substandard consumption. The chief effort over the next year or two will be to restore the balance between feed crops and livestock production where the drought has created unusual shortages. The industrial program must, however, center around a sharp increase in production, first to regain the physical standards of 1923-1929 and then to surpass them in line with the possibilities of technological progress.





Industrial production in December 1934 was 38% below 1929, agricultural production processed was 7% below. For the entire year, industrial output was 43% below 1929 and agricultural products processed 13%. The reverse situation prevailed in prices--agricultural prices were 38% below 1929 during the year 1934 and 31% below in December, while industrial prices were only 13.5% below.

Industrial production in 1934 was higher than in the early months of 1933, about as much higher as was employment, though the larger number employed worked fewer hours per week. These facts are cited here because they should serve as a background for your consideration of proposals for further reducing sharply the number of hours per week. The mathematics of the situation seems to us fairly simple; such in fact that any general reduction in hours worked per week so sharp that it could not be offset by technological improvements, would tend to raise costs and prices, restrict sales and thus tend to reduce production rather than increase it. Unless there is a wide profit margin to absorb it, a general reduction in hours worked can only increase cost and prices, and result in lower sales and part time employment. Workers buying power should go up as employment and production are increased; attempts to secure more for workers from immediate generally higher wages per hour are likely to defeat their own objective by tending to raise costs of living. Furthermore, a general application of this principle of forcing recovery by having more people engaged on the same jobs without at the same time providing for more production, can make little headway in giving additional employment in those areas where the bulk of the unemployment prevails. In those industries where activity is



still only a fourth or a third of what it was formerly, the reduction in hours would have to be enormous if any substantial number were reemployed and the little work shared among them. There is no guarantee outside of a definite effort at increased production that more houses and more goods would be produced. In fact, it is in these low employment industries where prices have remained relatively high and an increase in costs would merely perpetuate low volume, unless of course there clearly exist technological possibilities and opportunities for reducing margins. If such do exist in specific industries, the way to utilize them for the common good is not by a general application of a principle, irrespective of the widely varying conditions among the industries.

As we view the broad aspects of the agricultural and industrial recovery program and their interdependence, we cannot lose sight of the obvious fundamental that the welfare of all concerned arises from producing the things we need and from the ability to get that production equitably distributed. The laborer wants a full week's work for most of the year, the farmer wants to plant his acres to supply the city population with adequate supplies of food and clothing materials. Both need such yearly earnings as will permit a full exchange of products between them. That ample exchange of products and services would not be promoted by inordinately high agricultural prices with production cut way below normal. It is not promoted by holding on to relatively high industrial prices and letting employment and production go to bottom levels. It is not promoted by relatively high transportation charges with freight cars moving back and forth half empty. It is not promoted by





relatively high rents or higher building costs with only one building going up where five are needed. It is not promoted by time cards punched five days a week with only a half day's work to do and only a half of a pay envelope to show for it at the end of the week.

In each of these contrasts, substance is missing: that substance is an industrial program of production around which the problems of prices, wage rates, hours of employment, and profit margins can be balanced in the interest of speedy recovery, the course of which for the present must continue to be measured in output, employment and balanced distribution.

In our previous statement before the Board, we indicated that there is ample justification in our economic history as to trends in production, prices, real wages and profits, for the emphasis we place on the restoration of industrial production at least in line with the relatively higher level of agricultural production and the restoration of agricultural prices in line with industrial prices. Balance attained by going in that direction has always in the long run meant an increase in real wages to our workers and an increase in the purchasing power of farmers. This has been true over the past century, it was true in our latest prosperity period 1923-1929 and it was true even in the moderate recovery of the past two years, except that in the past two years the advance in the farmers standard of living has risen more from the much lower level to which it had fallen in 1932 than did the purchasing power of all wages and salary payments. The purchasing power of all wages and salaries per capita which in 1929 were 125% of the prewar average had declined to 91 in 1932 and 1933, and in 1934 was back

Dear Sir,

I have the honor to acknowledge the receipt of your letter of the 14th inst. in relation to the matter of the purchase of the land for the proposed road. I am sorry that I cannot give you a more definite answer at this time, but the matter is being considered by the proper authorities and I will be glad to advise you as soon as a decision has been reached.

I am, Sir, very respectfully,  
Yours truly,  
[Signature]



only to the prewar level. The purchasing power of farm income per capita available for goods that make up his standard of living which was 99% of the prewar average in 1929, fell to 54% in 1932 and by 1934 had been restored to 77%.

Neither the standard of living of farmers nor the standard of living of the large body of wage and salary employees can be restored to their 1929 levels if codes continue to be written and code and labor authorities continue to administer them largely without much regard to the effects of policies under one code on the welfare of related industries. Individual manufacturers cannot by themselves make the necessary reductions in costs and prices; but all manufacturers involved in supplying the several basic products for a given finished article, and all sales and distribution agencies involved in the handling of that article, would have lower overhead costs from the resulting increased volume and could afford to engage in programs of increased output. If some means were available to secure concerted joint action of all agencies directly or indirectly involved in the manufacture and sale of our basic industrial commodities, the greater efficiency of output in terms of costs would permit increased sales, wide reemployment and increased industrial profits at the same time. The building industry, for example, offers opportunities for much needed concerted action, for lower prices, selling costs and larger output taken by all the agencies and labor groups contributing to any stage to the production of a finished house. These steps would make possible exceedingly important increases in volume of activity and employment.



What is needed then is some way of coordinating the policy making decisions now distributed through many codes so as to insure that price, wage, production and distribution policies are established from the point of view of their effect upon the activity and welfare of the community as a whole, rather than from the point of view of the narrow interest of each small segment of each industry. Especially should this mean an increase in real purchasing power of the workers annual wage earnings, as well as an increase in the real income of the community as a whole. These must be the results of a program of increased production, for it is no single item, be it prices, rates, hours, or even money incomes but rather the balanced relationships among them which constitutes our ability to purchase and consume goods and really determine our physical standards of living.

In our earlier report, we pointed out that "there are many different ways in which this coordination of fundamental key policies could be obtained: (1) by coordinating committees, bringing together the key industrial administrators and the code authorities and labor representatives, for each group of codes related to a particular final product or products (as autos or houses); or (b) by inter-code authorities, with similar jurisdiction as suggested above, but with definite legal responsibility for approving individual code policies before they become effective; or (3) by a governmental planning agency cooperating with the code authorities and labor representatives in developing coordinated plans, and backed by administrative support in seeing that policies of individual codes and code authorities complied with those plans.





"But regardless of the form of organization, it is essential that means be found by which the organization of industry can be made to work so that production is increased; costs are lowered without reducing payrolls; selling margins and prices are reduced so that there is a market for the increased output; and unemployed workers are absorbed on a steadily increasing cycle of expansion. Only in some such way can our potential productive power be put to work to produce the things so many of us need so badly; or can we permanently restore the productive power and the buying power of the city workers, so that they can again afford to buy the full and adequate production which farmers are eager to produce and sell.

"The alternative policy would be to go back to deflation and ruthless competition, to equalize all prices downwards, and so again after a new period of chaos and suffering make full production possible. Even then we would face the probability of only short-lived prosperity followed by another debacle.

"Each day that ten million workers, in city unemployed and workers on farms, go without real work, the labor of 80 million man-hours is lost for all time. That is the greatest waste of the entire depression. We must work out the necessary readjustments in our economic machine, in our balances of agricultural and industrial prices, of agricultural and industrial production and agricultural and industrial standards of income and living conditions. These balances are necessary in order to turn loose the abundant man-power for the production of the things we all need and for really progressing out of this depression on a permanent basis."





One final remark. The hearings that have been conducted so far on price and employment provisions of the codes indicate the complexities of efforts to bring about industrial revival. Our suggestion that the emphasis be placed on expanded production programs instead of on the minutiae of price and wage questions does not mean shifting to an area of fewer complexities nor does it mean that the price and wage problems will not also have to be dealt with. Progress, however, will be greater and speedier if we apply our ingenuity closer to the center of our objectives than if we continue to deal with the problems on the periphery. We all know that piece-meal tinkering with a distorted fender or a weak horn will not start up an engine or get the traveler to his destination. In fact, there is reason to believe that given a production program well thought out and coordinated as between the several major basic industries, employment, wage and price problems would seem less complex and less difficult of solution, for they could then be viewed more clearly in terms of their specific contribution to the recovery program. In a sense, we are merely arguing for an extension of industrial cooperation, the beginnings for which groundwork has been laid during the past year and a half. In that broader area of cooperation, prices, wages, hours, volume can be treated in the composite rather than as individual approaches to recovery. That broadening of industrial cooperation between firms, industries and service agencies is essential when ten million people want employment for productive purposes and can't get it. It is essential if we are to bring about a restoration of the general standard of living whether in the city or on the farm, whether for the wage earner, salaried employee or entrepreneur.

